



PRACTICAL VAT IMPLEMENTATION CHALLENGES

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WHY WE FACE IMPLEMENTATION CHALLENGES?

- Uncertainties of Interpretation
- Lack of Awareness
- Ignorance of Law / Regulation
- Missing Harmonized Process between Authorities or Departments

UNCERTAINTIES OF INTERPRETATION

Question 1

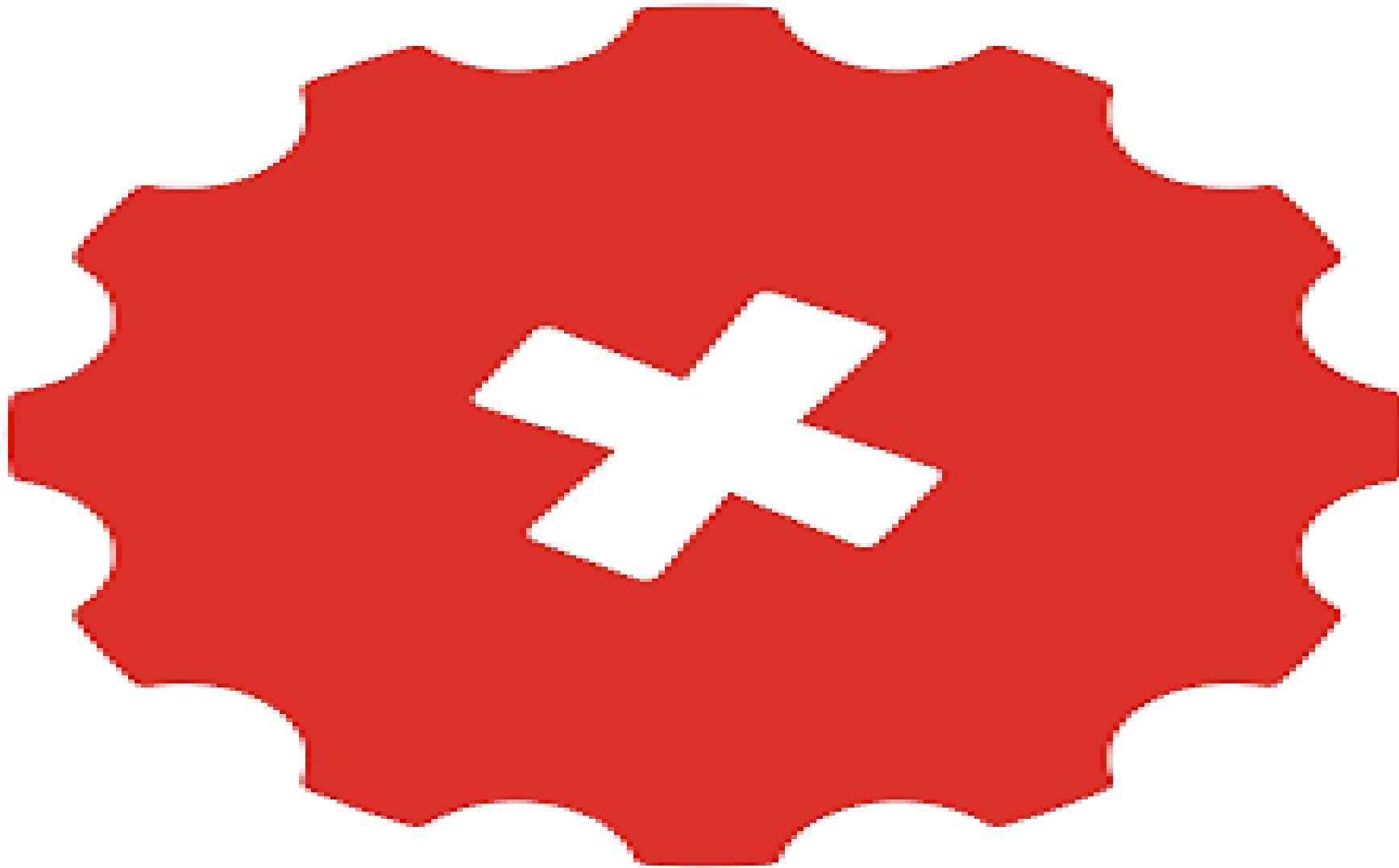
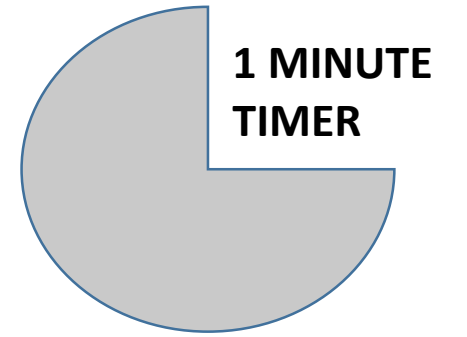
Ms. Alia Bhatt planned to de-register the company, as the turnover is not expected to reach voluntarily registration threshold considering the order book. On the agreed date of de-registration in 2019, the balance sheet includes

Fixed Assets (Net)	AED 75,000
Inventory	AED 25,000
Debtors	AED 20,000

Ms. Alia Bhatt manages proper stock statement which indicates that this stock was purchased in 2017 and therefore no VAT has been claimed on it. What will be the total amount of VAT Output which needs to be paid under Deemed Supply

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Analysis

Article 5(1)(a) of Executive Regulation states that

Supply shall not be regarded as Deemed Supply where Input Tax on relevant Goods or Services is not covered

Article 11(4) of Decree Law states that

Deemed Supply includes Goods and Services that a Taxable Person owns at the date of Tax Deregistration.

Question 2



ЭКСКЛЮЗИВ

LIFE NEWS

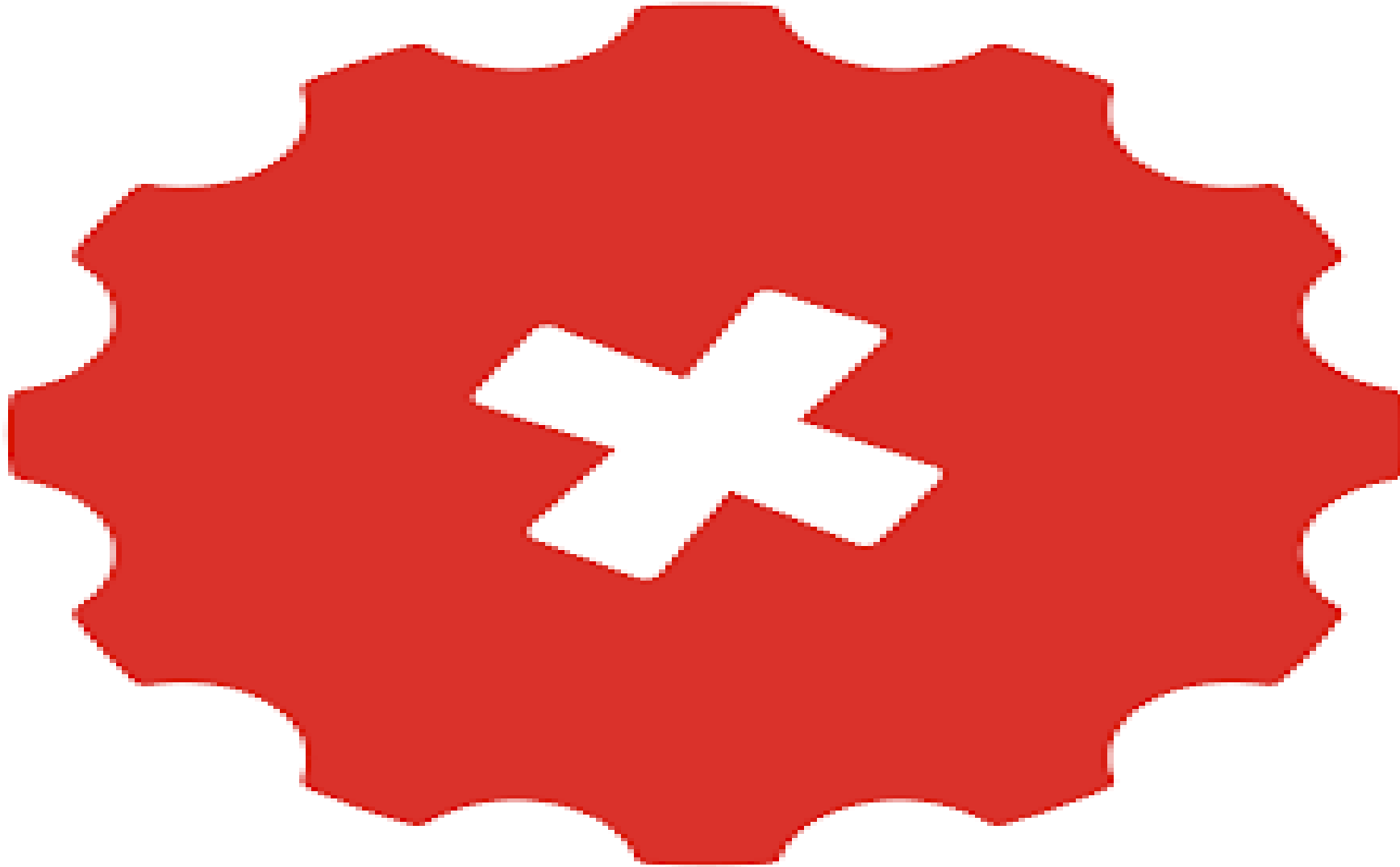
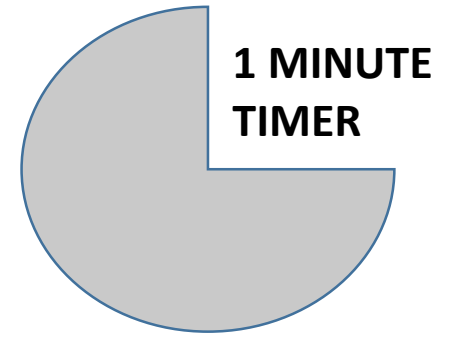
Question 2



The entire stock was damaged, and Insurance Company accessed the loss and paid AED 100,000. The actual cost of the inventory (wheat packets) was AED 120,000 on which input tax has already been recovered. This stock was being sold to customer at AED 150,000 under a contract on which invoicing will be done on quarterly basis based on total supply received & accepted by the customer. The net tax payable or receivable to be reported is

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Analysis

As Per VAT Public Clarification **VATP001**

If any payment does not relate to a supply of goods or services; rather payment to compensate for the damage or loss; then the payment is not subject to VAT.

As Per **Article 11(3)** Of Decree Law

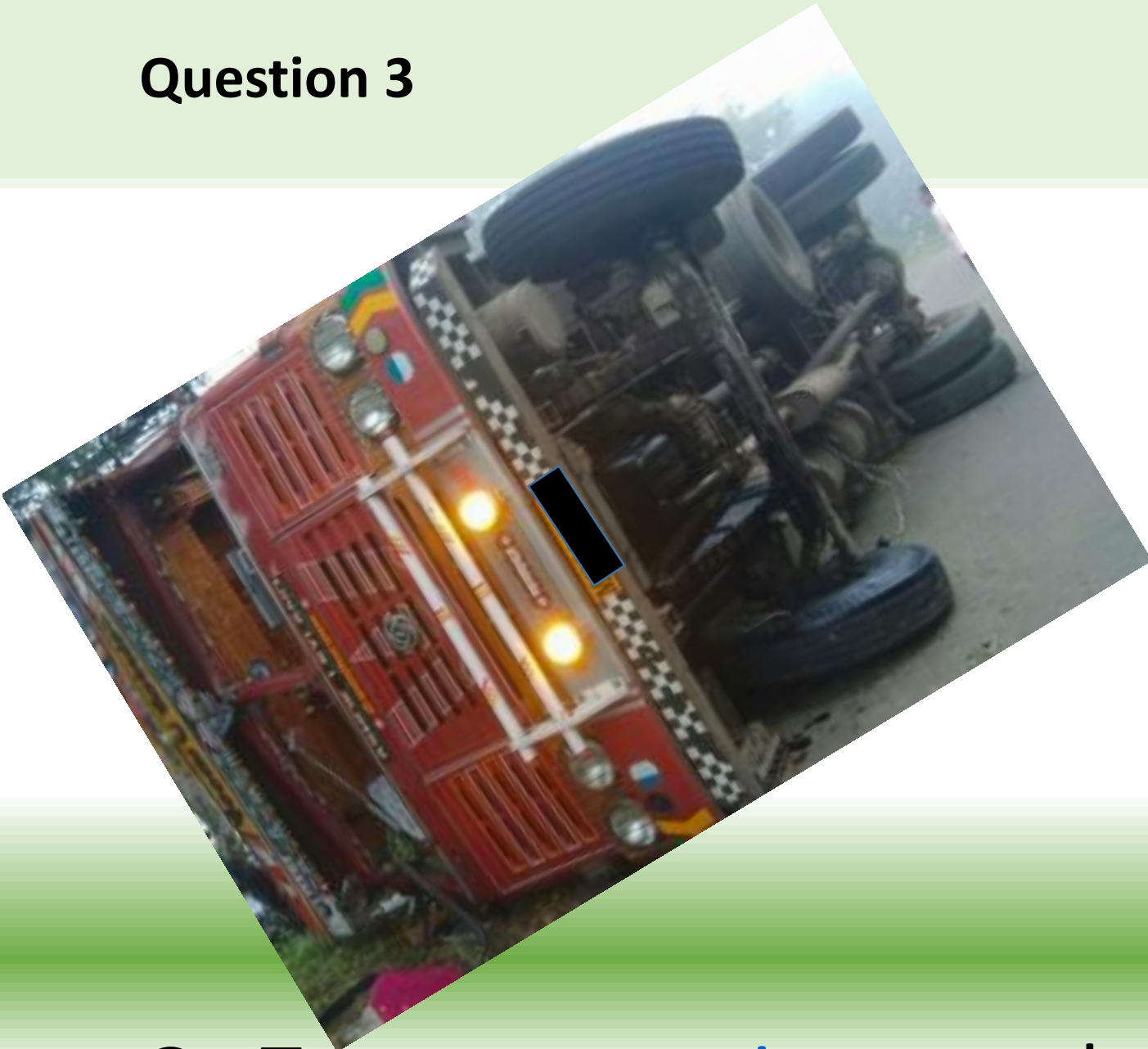
A supply of Goods or Services for which Input Tax may be recovered but the Goods or Services were used, in part or whole, for purposes other than Business, and such supply shall be considered as deemed only to the extent of the use for non-business purposes.

**The above view is also in line with the guidance issued by
HMRC, UK**



LACK OF AWARENESS

Question 3



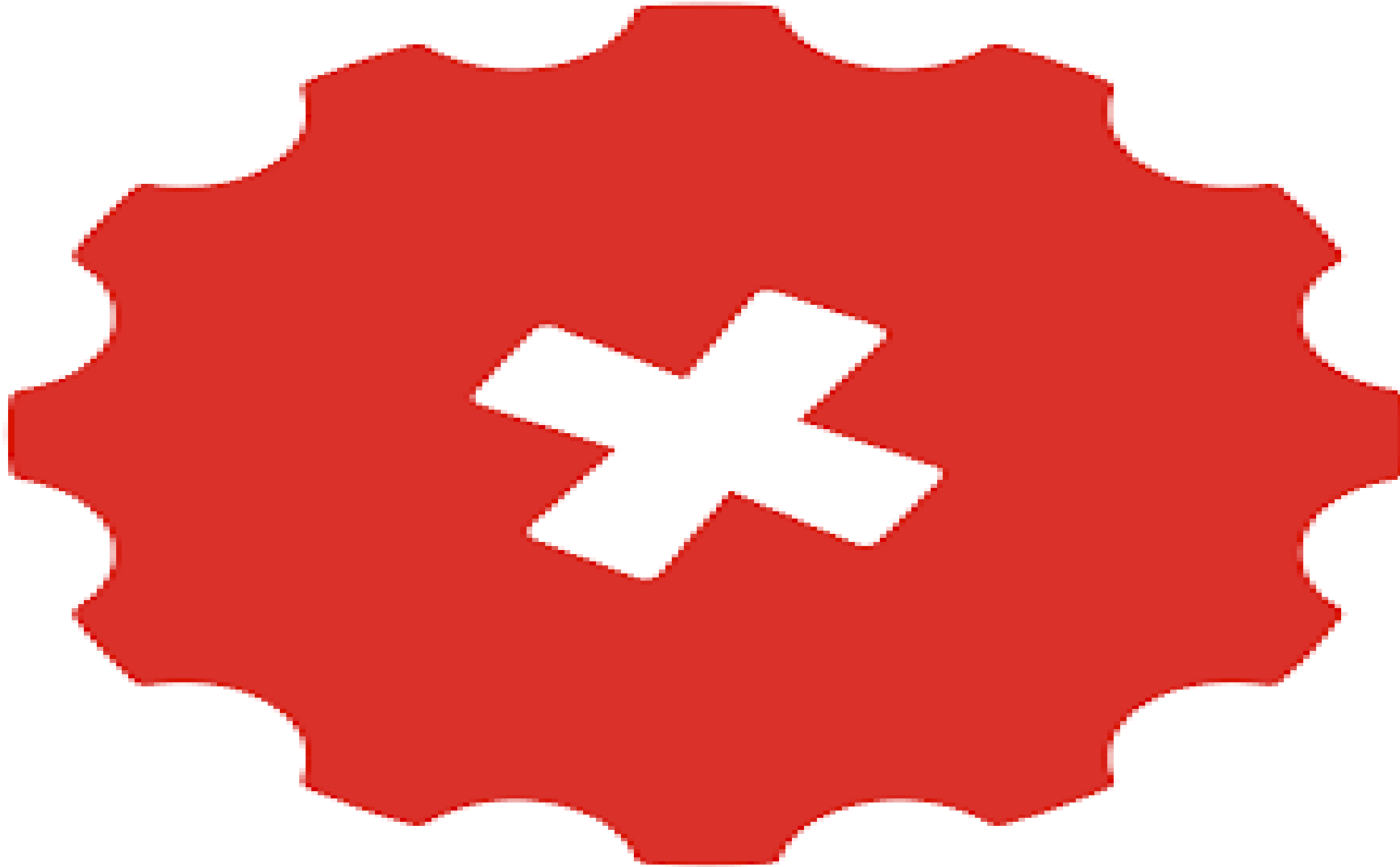
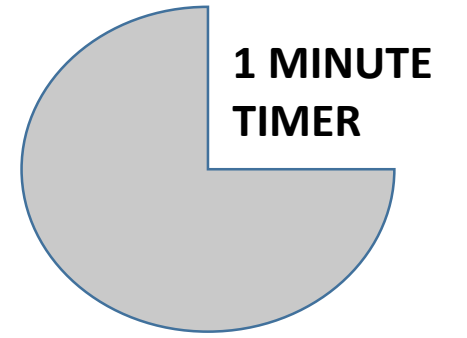
In the accident, Insurance Company Declared the truck as **Total Loss** as damage exceeded 85% of value of truck.

Insurance Company paid AED 20,000 and the registration of the car was transferred from the company to Road Transfer Authority (RTA)

Does this transfer tantamount to supply of truck by company to RTA for a consideration of AED 20,000

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Analysis

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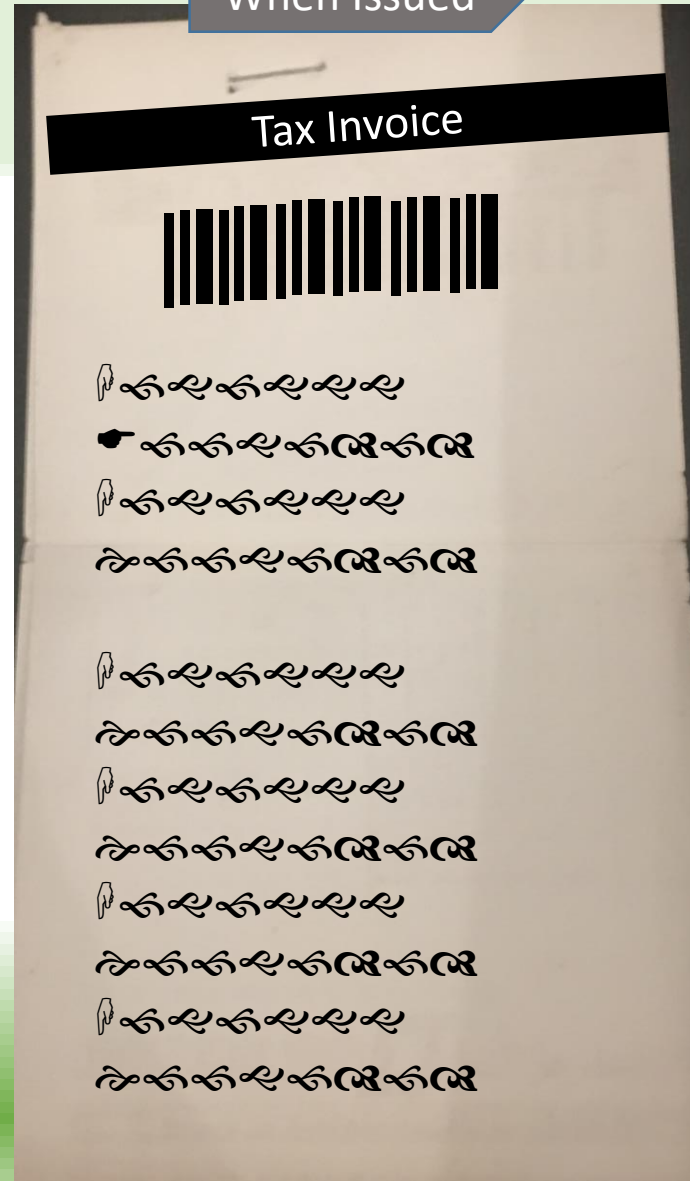
As Per **Article 2(1)(b)** Of Executive Regulation

Supply of Goods include transfer of ownership for a Consideration in a compulsory manner pursuant to the applicable legislations.

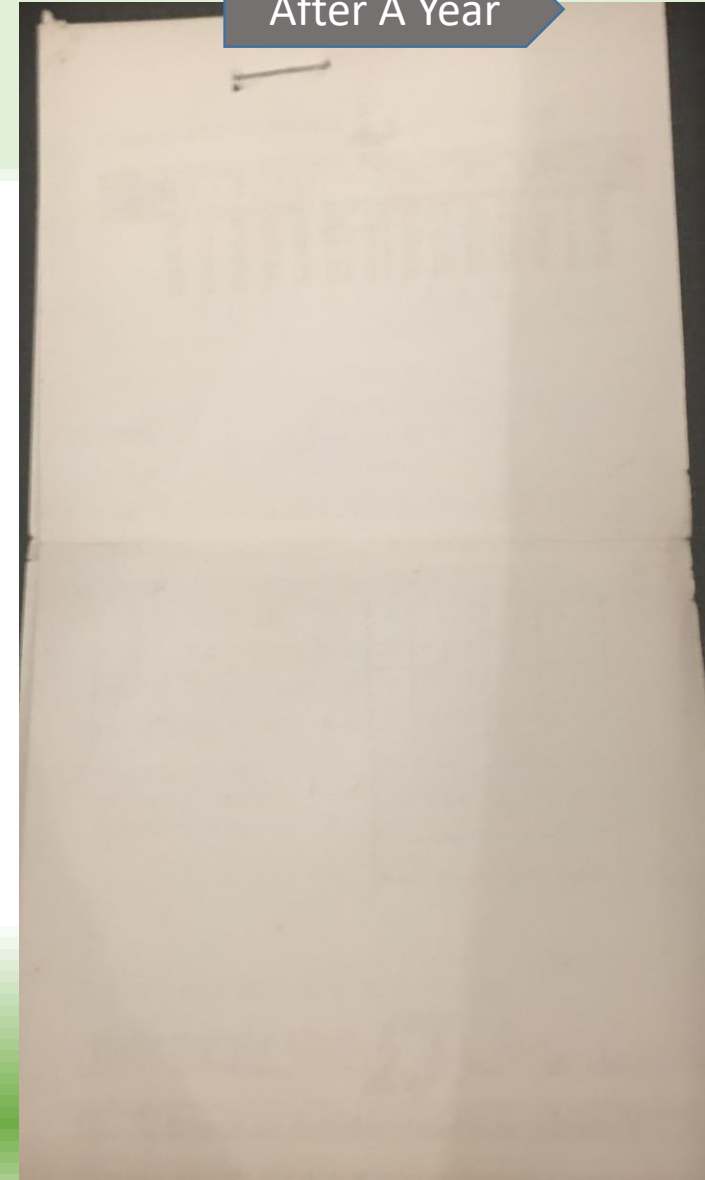
Question 4



When Issued

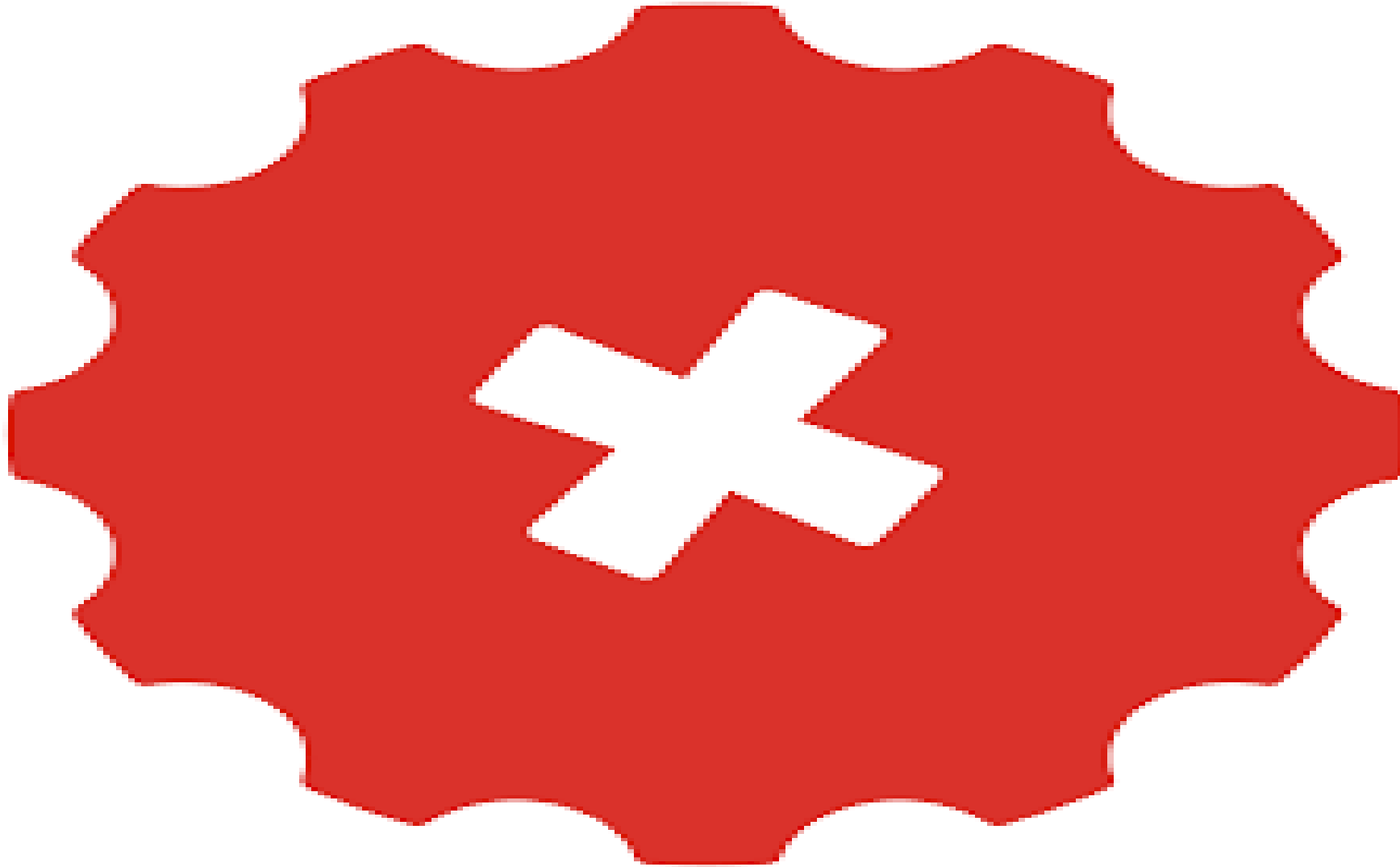
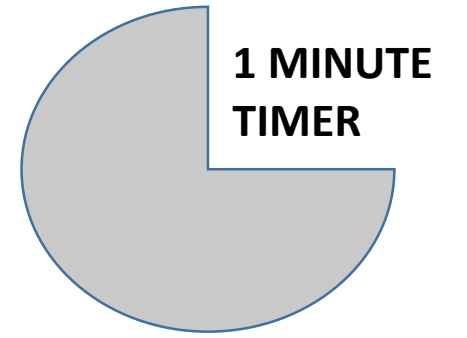


After A Year



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Analysis

Interpretation of **Article 4(1)(b) of Executive Regulation** suggests

the obligation to maintain Accounting Records and Commercial Books shall be met by creating the record and preserving the information that was contained in the original document in photocopy or electronic form and an easy readable copy of it can be reproduced within reasonable time

IGNORANCE OF LAW / REGULATION

Question 5



Purchase Order of AED 100,000 + VAT given to supplier with 90 Days payment term from delivery on 01-Mar-18.

Goods Delivered by supplier on 15-Mar-18.

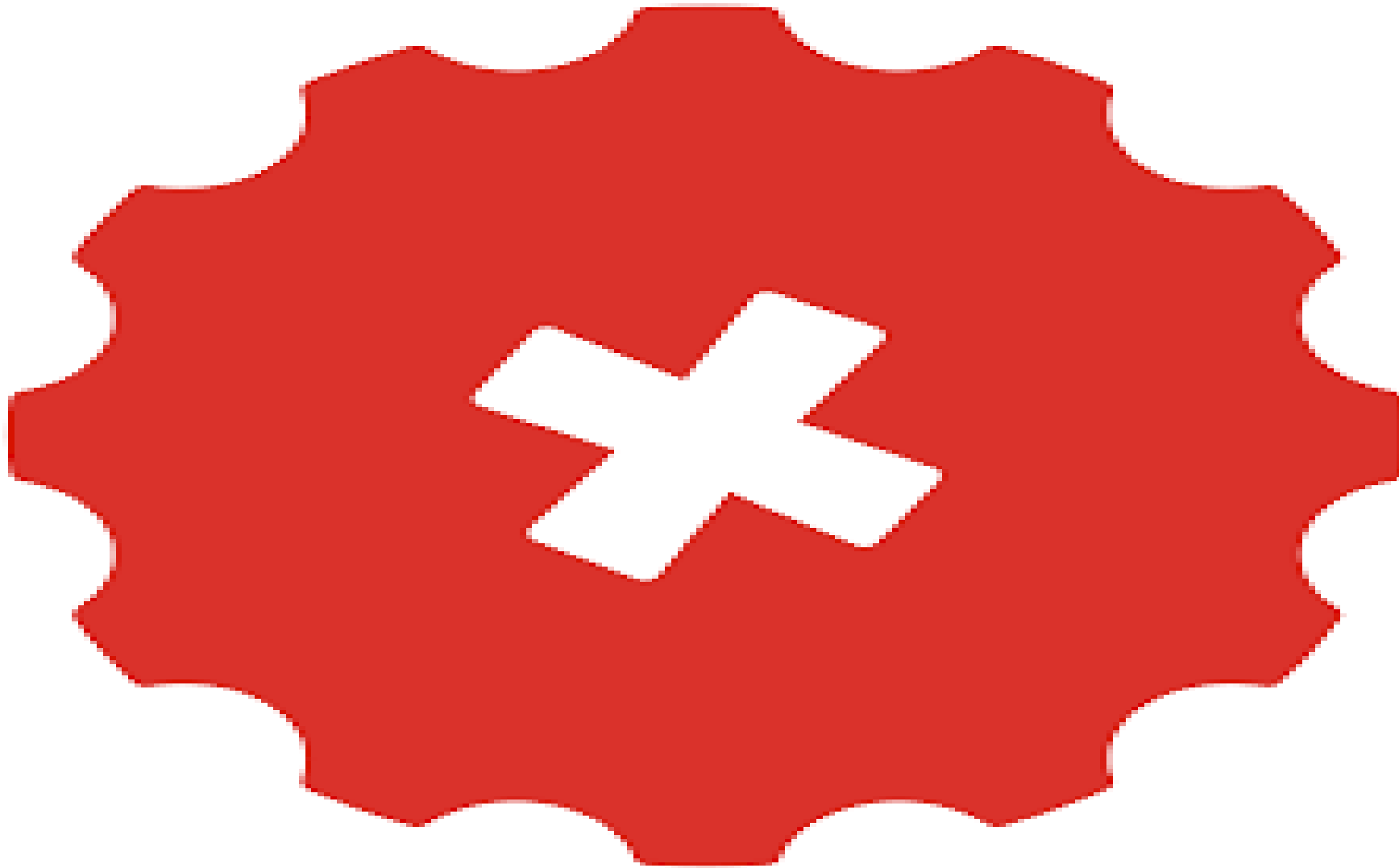
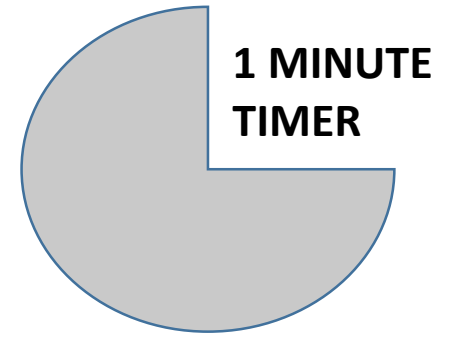
Input Tax claimed on supply in Mar-18 tax period.

Balance Sheet on 31-Mar-19 shows an outstanding of AED 50,000 against this supply

Is there any non-compliance. If Yes, Explain

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Analysis

As Per **Article 54** of Executive Regulation

The amount of Recoverable Tax that can be reclaimed by a Taxable Person in the Tax Period in relation to the supply of Goods or Services made to him, is the amount of Input Tax that relates to the portion of Consideration in respect of the supply that has been paid or intends to be paid before the expiration of six months after the agreed date for the payment

In **Heanor Motor Company Ltd. Vs Revenue & Customs [2014]**

First Tier Tribunal in UK decided that where a taxpayer has not, within the six month time period, paid the consideration due on the supply then he is not entitled to reclaim the input VAT.

Question 6

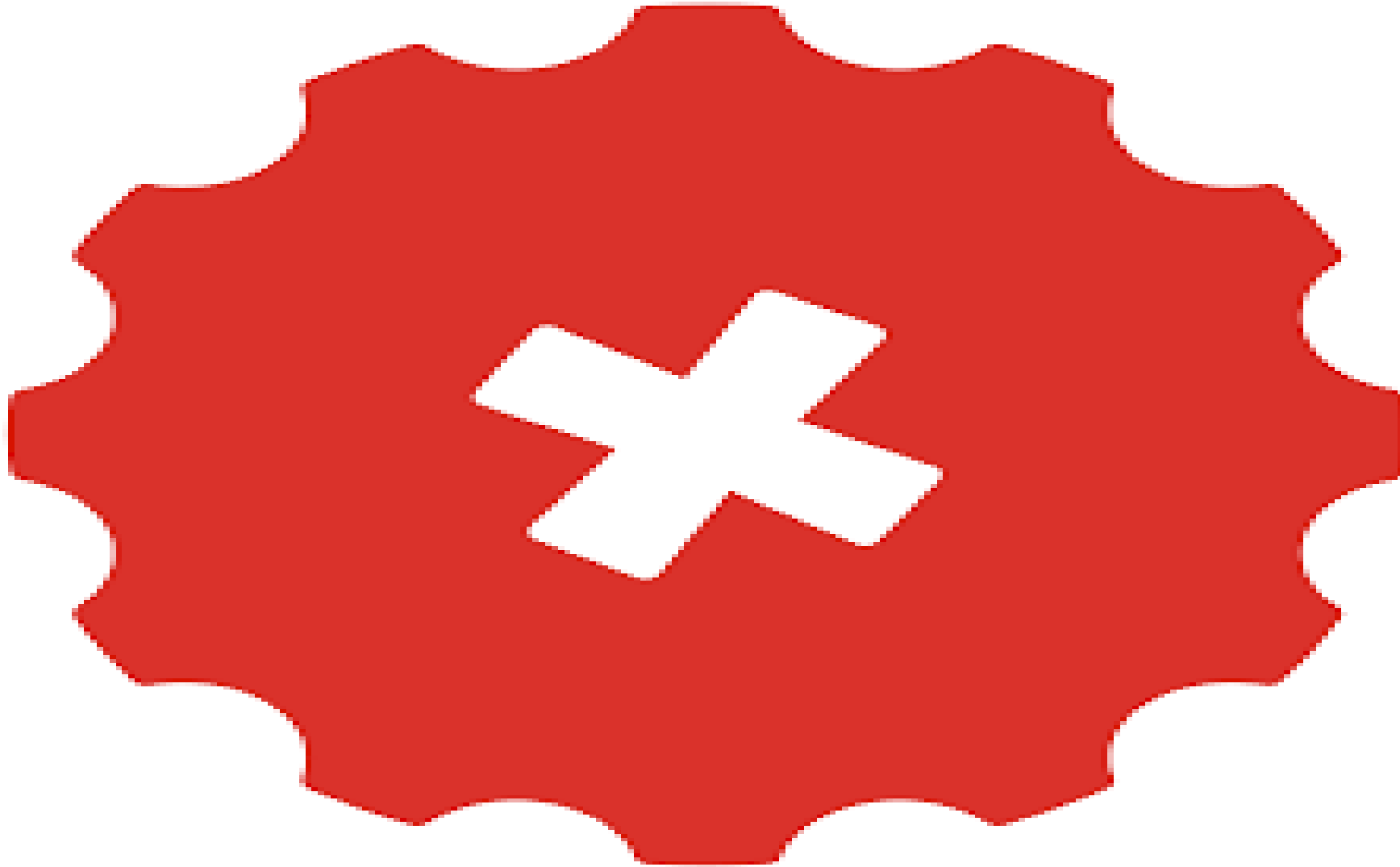
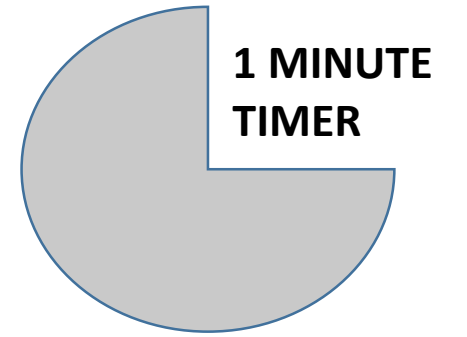


- Invoice Of AED 15,000 does not carry TRN Number of the Supplier
- Invoice of AED 25,000, issued by supplier, does not carry Tax Rate at line level
- Invoice of AED 30,000, issued by supplier, only states Dubai, UAE as address of supplier

Can Input Tax on Such Tax Invoices be claimed

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Analysis

As Per **Article 55** of Decree Law

Recoverable Input Tax may be deducted through the Tax Return when the Taxable Person receives and keeps the Tax Invoice as per the provisions of this Decree-Law

In **Kohanzad v Customs and Excise Commissioners [1995]**

prima facie a taxable person is not entitled to input tax credit unless he holds a tax invoice but the Commissioners have a discretion to allow credit for input tax.



Statement of Practice

- Evidence of Receipt
- Evidence of Payment
- Alternative Documentary Evidence

MISSING HARMONIZED PROCESS

Question 7



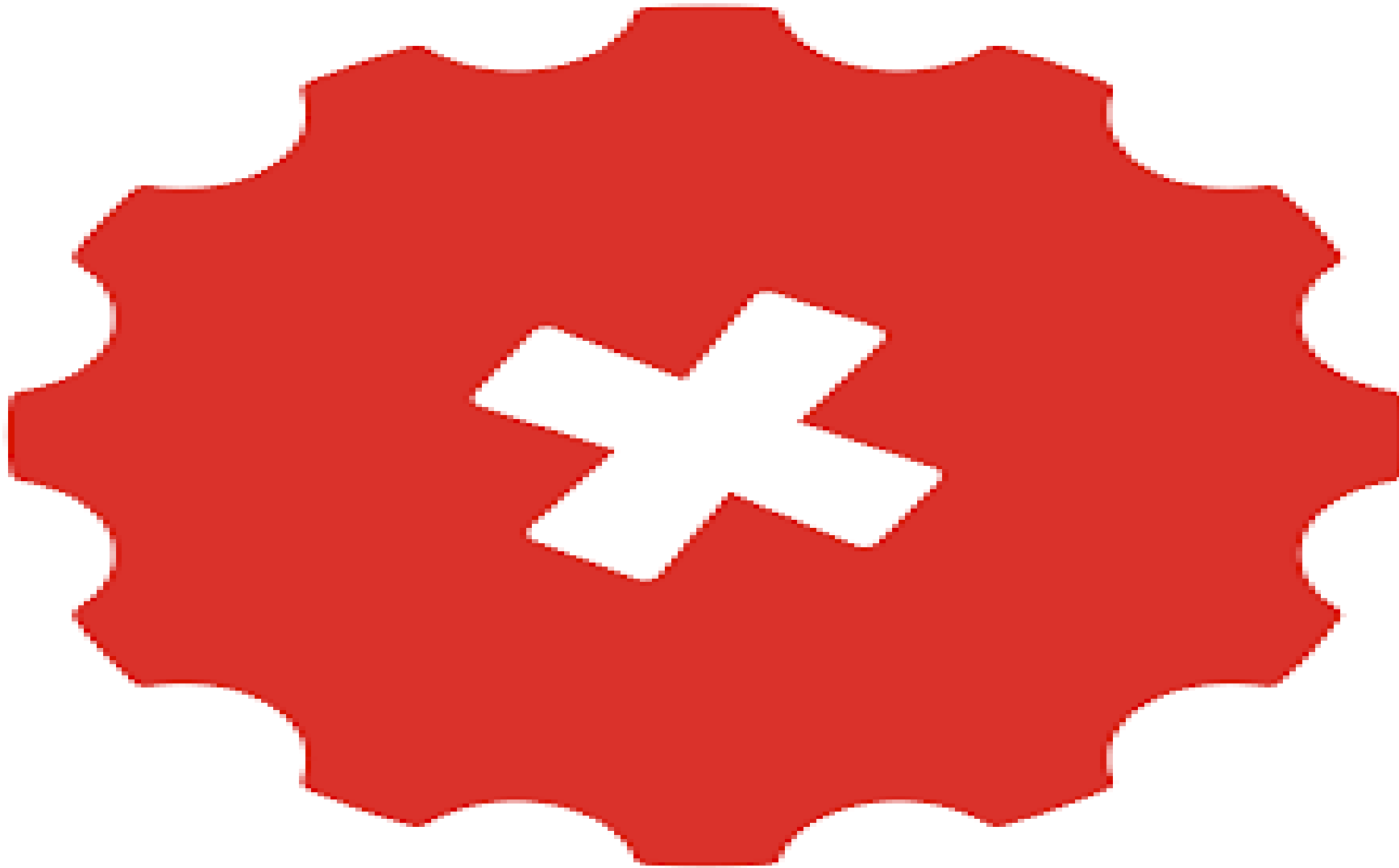
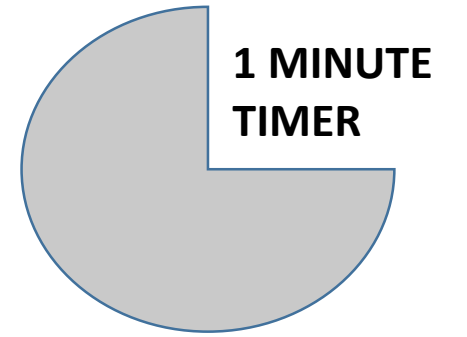
Mr. A, having a registered office in DMCC, imported goods from China to UAE and stored the same within DMCC

Subsequently, the goods were sold by Mr. A to Mr. B and goods were cleared from DMCC under the custom declaration with B, being importer on record.

Does Mr. A need to charge VAT on sales made to Mr. B?

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Analysis

As Per **Article 3** of Decree Law

Without prejudice to the provisions of Title Six of this Decree-Law, a standard rate of 5% shall be imposed on any supply or Import pursuant to Article (2) of this Decree-Law on the value of the supply or Import specified in the provisions of this Decree-Law.

Title Six of Decree Law covers

- Zero Rated Supply
- Exempt Supply
- Designated Zone
- Imports from Outside UAE

WHAT WE CAN DO...

Challenge

- Uncertainties of Interpretation
- Lack of Awareness
- Ignorance of Law / Regulation
- Missing Harmonized Process between Authorities or Departments

Solution

- File for Clarification
- Read & Re-read the Provisions
- Expand Your Horizon. 193 countries have implemented VAT
- Please follow your process and documentation. Patience & Time will fix this

Relevant Links For Study & Guidance

<https://www.casemine.com/judgement/uk/5b2897e02c94e06b9e19cc3b>

https://library.croneri.co.uk/cch_uk/bvc/1995-bvc-3

<https://www.gov.uk/guidance/vat-lost-stolen-damaged-or-destroyed-goods>

<https://tax.gov.ae/en/vat/guides-listing>

<https://tax.gov.ae/en/legislation>

THANK YOU

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